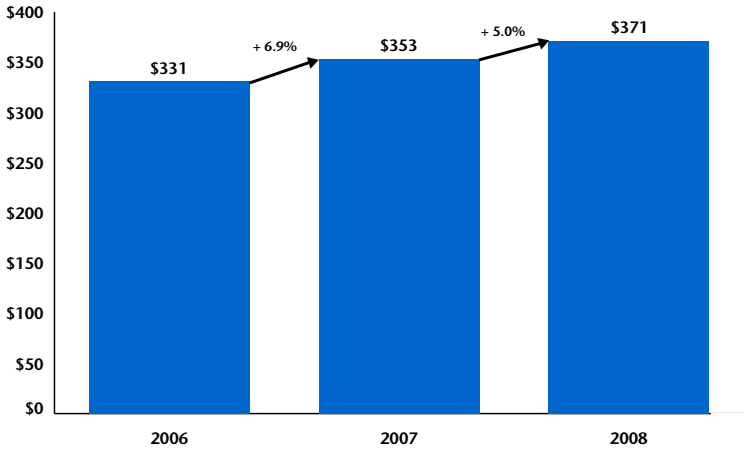
Understanding Health Care Costs

Part II: Massachusetts Private Health Insurance Premium Trends 2006-2008

FACT SHEET

This report is the second in a new series from the Massachusetts Division of Health Care Finance and Policy (DHCFP) on health care costs—what they are and the forces that influence them. This report focuses on trends in private health insurance premiums in Massachusetts from 2006 through 2008. The data reflects premium activity up to 2008 only and is not illustrative of any more recent market activity or cost, which may show that premiums or cost have increased even further.

Average Monthly Private Insurance Premiums: All Market Segments Combined



Average monthly premiums increased 12.2% from 2006-2008. Premiums grew more slowly in 2008 (5.0%) than they did in 2007 (6.9%) across all market segments, on average.

A Little Background on Health Insurance Premiums

- Health insurance premiums have two basic parts: medical expenses and non-medical expenses.
- Non-medical expenses include three components:
  1) administrative costs,
  2) contributions to surplus or profit, and
  3) brokers' commissions.
- Most of a health insurance premium goes toward medical expenses—the actual health care. In Massachusetts more than 88% of premiums are spent on medical expenses on average as compared to less than 84% nationally.
- The premium trends presented in the report reflect the fully-insured private health insurance markets, which represent roughly 34% of people with health insurance in Massachusetts. Future years' reports will include analyses of public coverage, including Medicare, MassHealth, and Commonwealth Care.

Increases in the Cost of Premiums from 2006 to 2008

- The growth in the cost of premiums during this period was caused almost entirely by growth in medical expenses. Spending on non-medical expenses grew more slowly.

Differences in Premiums by Group Size

- DHCFP examined premium trends for three market segments: small (representing employers with 50 or fewer covered employees), mid-size (representing employers with 51-499 covered employees), and large (representing employers with 500 or more covered employees).
- Small group premiums grew faster on average than mid-size and large group premiums, when adjusted for differences in benefits, demographics and location. From 2007 to 2008, adjusted small group premiums grew 5.8%, while mid-size group grew 4.8%, and large group grew 5.4%.

About the Division

The mission of the Division of Health Care Finance and Policy is to improve health care quality and contain health care costs by critically examining the Massachusetts health care delivery system and providing objective information, developing and recommending policies, and implementing strategies that benefit the people of the Commonwealth.

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- In 2008, small group premiums were 5.8% higher than large group premiums and 4.9% higher than mid-size groups, when adjusted for differences in benefits, demographics, and location. For the most part, higher medical expenses in the small group market drove these differences.

Reductions in Benefit Levels

- Large groups tend to purchase coverage with richer benefits than do mid-size or small groups, but groups of all sizes are reducing benefits for employees.
- An overall decrease in the level of benefits in Massachusetts is similar to national trends, which indicate that employers and other payers have been increasing deductibles and copayments over the past several years.
- If benefits had remained constant from 2006 to 2008, premium growth and cost would have been greater for both consumers and employers.
- From 2006 to 2008, the average cost of large group premiums consistently exceeded mid-size and small group premiums, due mostly to the fact that large employers tended to purchase richer levels of benefits and coverage.

Health Plan Spending on Non-Medical Expenses

- In 2009, 12.4% of premiums paid by small employers went to non-medical expenses, compared to 11.3% of premiums for mid-size employers and 9.6% of premiums for large employers. The difference in non-medical expenses may be due in part to higher administrative expenses in the small group market where fixed administrative costs must be spread among a smaller population.
- Contributions to surplus or profit represent the smallest portion of premium spending—between 2% and 3%.

Note: Average premium data (pm/pm) may not reflect premium volatility for any specific employer group. As such, premium levels and trends can vary substantially from the average and may not be reflected in the chart. The premiums presented in this report represent premiums paid per member per month (PMPM). The PMPM premiums are calculated as total annual premium revenues collected divided by total months that people were covered by the plan. As a result, the PMPM premiums reflect the average premiums paid per covered person, where the covered person could be a subscriber or dependent, such as a spouse or child. Generally, individual premiums quoted to purchasers are roughly 15-20% higher than premiums PMPM. This amount differs from the actual premiums quoted for individual coverage in the market since premiums are quoted per subscriber, and not per covered person or covered member.